

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ISO-00 SAJ-01 AID-20 CIAE-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12

SP-03 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PRS-01 PA-04 USIA-15 ABF-01

DRC-01 /179 W

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R 121756Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 2071

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JULY 12

BEGIN SUMMARY: STERLING TRADED BETWEEN \$2.3885 AND
\$2.3830 AGAINST THE DOLLAR THIS WEEK WITH THE AVERAGE

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WEIGHTED DEPRECIATION HOVERING AROUND 17 PERCENT. GOLD

ROSE SHARPLY REACHING \$145.50 ON TUESDAY (JULY 9) COMPARED TO \$131 LAST THURSDAY (JULY 4) BUT THEN FELL BACK TO CLOSE AT \$137.25 THIS THURSDAY (JULY 11). IN JUNE, THE CURRENT ACCOUNT IMPROVED SLIGHTLY SHOWING A DEFICIT OF 365 MILLION POUNDS (S.A.) WITH A TRADE DEFICIT OF 468 MILLION POUNDS (S.A., F.O.B., B/P BASIS) AND AN INVISIBLES SURPLUS OF 103 MILLION POUNDS. IN APRIL, BRITAIN'S TERMS OF TRADE WERE VIRTUALLY UNCHANGED FROM MARCH, INDICATING THE FIRST SIGN OF STABILITY IN AN INDEX WHICH HAD BEEN STEADILY DETERIORATING ALL THROUGH 1973 AND FIRST QUARTER 1974. WHOLE PRICES FOR DOMESTIC SALES OF MANUFACTURED PRODUCTS GREW MUCH MORE SLOWLY IN JUNE WHILE RAW MATERIALS COSTS ACTUALLY DROPPED FOR THE FIRST TIME SINCE MAY 1972. REVISED FIGURES FOR MANUFACTURER'S INVESTMENT IN THE FIRST QUARTER SHOW, IN FACT, A SHARP UPTURN IN EXPENDITURE BETWEEN THE FOURTH QUARTER 1973 AND FIRST QUARTER 1974. MANUFACTURERS' INVENTORIES FELL BY 105 MILLION POUNDS IN FIRST QUARTER 1974. AS MANY AS 15 BANKS WILL HAVE TO LODGE ABOUT 6 MILLION POUNDS WITH THE BANK OF ENGLAND FOR A MONTH AS A RESULT OF THE RESTRICTIONS INTRODUCED LAST DECEMBER. END SUMMARY

1. THE POUND WAS EXTREMELY STABLE AGAINST THE DOLLAR THIS WEEK, ITS LOW FOR THE WEEK BEING \$2.3830 ON THURSDAY (JULY 11), DOWN 45 POINTS ON LAST THURSDAY'S CLOSE. THE AVERAGE WEIGHTED DEPRECIATION WAS 16.96 PERCENT ON THURSDAY (JULY 11) COMPARED TO 17.1 PERCENT A WEEK AGO. GOLD WAS QUITE VOLATILE THIS WEEK, RISING UNTIL TUESDAY AND THEN FALLING BACK ON WEDNESDAY AND THURSDAY, CLOSING \$6.25 UP ON LAST THURSDAY'S CLOSE.

2. IN JUNE, THE UK CURRENT ACCOUNT DEFICIT IMPROVED BY 13 MILLION POUNDS TO 365 MILLION POUNDS WITH RECORD EXPORTS OF 1,345 MILLION POUNDS AND RECORD IMPORTS OF 1,813 MILLION POUNDS PRODUCING A TRADE DEFICIT OF 468 MILLION POUNDS (S.A., F.O.B., B/P BASIS). FOR DETAILS SEE LONDON 8705.

3. AFTER LONG DELAY, TERMS OF TRADE FIGURES ARE NOW BEING PRODUCED MORE REGULARLY. IN APRIL, THE INDEX STOOD AT 74.9 COMPARED TO 74.8 IN MARCH. THE DROP IN TERMS OF

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TRADE INDEX FROM 97.2 IN JANUARY 1973 TO UNDER 75 THIS YEAR HAS BEEN ONE MAJOR FACTOR IN THE RISE IN THE TRADE DEFICIT TO RECORD LEVELS. WHEN FUELS ARE EXCLUDED, THE IMPORT VALUE INDEX ROSE ONLY 2-1/2 PERCENT IN APRIL, PRODUCING A 1 POINT IMPROVEMENT IN THE TERMS OF TRADE.

4. THE WHOLESALE PRICE INDEX FOR DOMESTIC SALES OF MANUFACTURED PRODUCTS (OUTPUT PRICES) STOOD AT 150.7 IN JUNE,

COMPARED TO 148.8 IN MAY (1970100). THIS WAS A MONTHLY RISE OF 1-1/4 PERCENT, DOWN SHARPLY FROM THE FEBRUARY MONTHLY INCREASE OF 3-1/4 PERCENT. THE INDEX FOR RAW MATERIAL PRICES IN JUNE STOOD AT 207.8, COMPARED TO 210.0 IN MAY (1970100), A DROP OF 1 PERCENT. THIS FALL REFLECTS THE CONTINUED REDUCTIONS IN COMMODITY PRICES, PARTICULARLY FOR COPPER AND OTHER NON-FERROUS METALS.

5. THE ESTIMATE OF CAPITAL EXPENDITURE IN MANUFACTURING INDUSTRY IN THE FIRST QUARTER HAS BEEN REVISED UPWARDS BY 21 MILLION POUNDS TO 525 MILLION POUNDS (1970 PRICES, S.A.). THIS IS 6 PERCENT ABOVE INVESTMENT IN THE FOURTH QUARTER 1973; COMPARED WITH FIRST QUARTER 1973, INVESTMENT IS UP ALMOST 12 PERCENT OVER A YEAR AGO.

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FM AMEMBASSY LONDON

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6. THERE HAS BEEN A SHARP FALL IN INVENTORIES OF FINISHED GOODS, WITH TOTAL MANUFACTURER'S INVENTORIES FALLING BY 105 MILLION POUNDS IN THE FIRST QUARTER. THE INVENTORIES/ OUTPUT INDEX NOW STANDS AT 94.3 (S.A., 1970100) SHOWING A LARGE INCREASE ON FOURTH QUARTER 1973 WHICH WAS 89.9. (THE RATIO MEASURES INVENTORIES LEVELS AT 1970 PRICES IN RELATION TO PRODUCTION WEIGHTED IN TERMS OF 1970 OUTPUT.)
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7. UNDER THE NEW RULES, ANNOUNCED BY THE BANK OF ENGLAND IN DECEMBER 1973, THE GROWTH OF INTEREST-BEARING ELIGIBLE LIABILITIES WAS LIMITED TO 8 PERCENT BETWEEN THE AVERAGE OF LAST OCTOBER-NOVEMBER-DECEMBER AND THE THREE MONTHS TO MID-JUNE. WHILE NONE OF THE LARGE BANKS HAVE GONE OVER THE 8 PERCENT CEILING, SOME 15 SMALLER BANKS HAVE. THEY WILL HAVE TO PLACE ABOUT 6 MILLION POUNDS WITH THE BANK OF ENGLAND FOR A MONTH AS NON-INTEREST BEARING DEPOSITS.

8. FORWARD STERLING NARROWED SHARPLY ON TUESDAY (JULY 9) WITH ONE MONTH AT A PREMIUM OF 0.10 CENTS. HOWEVER, FORWARD STERLING WAS QUOTED AT A DISCOUNT AT ALL MATURITIES LATER IN THE WEEK.

	7/4	7/11	CHANGE
1 MONTH	0	0.07-1/2	UP 0.07-1/2
3 MONTHS	1.12-1/2	1.15-1/2	UP 0.03
6 MONTHS	4.10	4.05	DOWN 0.05

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES ROSE STEADILY ALL WEEK.

	7/4	7/11	CHANGE
1 MONTH	11-3/4	12-1/16	UP 5/16
3 MONTHS	13	13-5/16	UP 5/16
6 MONTHS	13-1/2	13-9/16	UP 1/16

10. EURODOLLAR RATES FELL BACK THIS WEEK FROM THE RECORD LEVELS OF LAST WEEK.

	7/4	7/11	CHANGE
1 MONTH	14-3/16	13-3/4	DOWN 7/16
3 MONTHS	14-1/16	13-3/4	DOWN 5/16
6 MONTHS	13-7/8	13-3/4	DOWN 1/8

11. THE MINIMUM LENDING RATE WAS FIXED AT 11-3/4 PERCENT
ON FRIDAY, JULY 12.

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Message Attributes

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